GTE

NORTHERN OHIO TELEPHONE COMPANY

Our 1972 Annual Report

TO THE SHAREHOLDERS:

February 26, 1973

It is very gratifying to inform you that the past year was one of significant accomplishments for Northern Ohio Telephone Company.

Completion of a construction program during the year totalling $21,300,000 enabled us to realize many substantial improvements in existing service levels and also add 14,163 telephones to the total served, bringing it to 220, 332 at year-end 1972.

Total operating revenues increased $2,686,000 over last year to $34,080,000. Total operating expenses and taxes increased $2,125,000 to $26,238,000 for the year. Net income for the year was $4,614,000 which is approximately $9,000 less than for 1971. These figures plainly support the fact that the increased costs of operation, taxes, and interest charges readily erode the revenues that are produced by our existing rate schedules which became effective in 1958.

Continuing with our goal to upgrade thousands of our customers to one-and two-party service from four-party and multi-party service, the quality of service was substantially improved in all areas.

In order to continue our present excellent level of service and meet the related increase in expenses, taxes, and interest charges, we found it necessary to request an increase in local service rates. Consequently, on July 12, 1971 an application was filed with The Public Utilities Commission of Ohio which would produce $3,533,000 in annual revenues.

The case has been presented to the Commission and the hearings were concluded in November, 1972. The Commission has not yet issued an order on the Company's request.

Looking ahead, continued emphasis will be placed on our service improvement program which will involve over $50-million in 1973 and 1974.

Reflecting our long-standing policy that the opportunities afforded by Northern Ohio Telephone Company for employment, for advancement, and for work in dignity are available equally to all, an employee or prospective employee is evaluated on the basis of performance and attitude, skill and experience, ambition, energy, and aptitude - and never on the basis of race, color, sex, age, religion, or national origin. Northern Ohio Telephone Company fully recognizes its responsibilities as an equal opportunity employer, and the individual responsibility of every managerial employee to implement this fundamental policy is constantly emphasized throughout the organization.

With the usual dedication that has always characterized the employees of Northern Ohio Telephone Company, we are fully confident that the objectives of our ambitious service improvement program will be achieved and that our growth potential will be met successfully in the future.

Robert M. Wopat

ROBERT M. WOPAT
President

Board of Directors

JOHN A. AIGLER
Commercial Manager of the Company
Bellevue, Ohio

CHARLES H. CAMPBELL
The Equitable Life Assurance Society
Ashland, Ohio

ROBERT T. CAMPBELL
The North Electric Manufacturing Co.
Galion, Ohio

FRANK C. HENRY
Partner, Bosworth, Sessions, Herrstrom and Cain, Patent Attorneys
Cleveland, Ohio

FRED W. UHLMAN, JR.
McDonald & Company
Bowling Green, Ohio

ROBERT M. WOPAT
President of the Company
Marion, Ohio

Officers

ROBERT M. WOPAT
President

FRANCIS W. HAMPER
Vice President-Operations

ROBERT A. LINDSAY
Vice President-Controller

ROBERT J. WHITE
Vice President-Revenue Requirements

THEODORE S. LAUVER
Secretary and Treasurer

MARVIN R. JOHNSTON
Assistant Secretary and Assistant Treasurer

GTE

NORTHERN OHIO TELEPHONE COMPANY

Balance Sheets

December 31, 1972 and 1971

	1972	1971
	(Thousands of Dollars)	
ASSETS		
TELEPHONE PLANT		
Substantially at original cost	**$ 135,892**	$ 119,411
Accumulated depreciation	**(22,109)**	(21,714)
	$ 113,783	$ 97,697
CURRENT ASSETS		
Cash	**$ 1,722**	$ 2,653
Receivables (including unbilled revenues) less allowance for doubtful accounts of $36,000 for 1972 and 1971	**4,002**	5,260
Material and supplies, at average cost	**433**	575
Prepayments and other	**459**	349
	$ 6,616	$ 8,837
DEFERRED CHARGES		
Cost of issuing debt securities, in process of amortization	**$ 164**	$ 178
Other	**367**	244
	$ 531	$ 422
Total assets	**$ 120,930**	$ 106,956

(The accompanying summary of significant accounting

GTE
NORTHERN OHIO TELEPHONE COMPANY

	1972	1971
	(Thousands of Dollars)	
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION (Note 1)		
(per accompanying statements)		
Common equity	**$ 48,104**	$ 36,740
Long-term debt	**54,821**	44,818
	$ 102,925	$ 81,558
SHORT-TERM DEBT (Note 2)		
Notes payable to General Telephone & Electronics Corporation (parent company) (interest at prime rate)	**$ —**	$ 6,000
Notes payable to banks (interest at prime rate)	**—**	7,900
Commercial Paper (interest at rates below bank prime rate)	**3,900**	—
	$ 3,900	$ 13,900
	$ 106,825	$ 95,458
CURRENT LIABILITIES (Note 2)		
Accounts payable	**$ 3,214**	$ 2,372
Advance billings and customer deposits	**1,011**	777
Accrued liabilities —		
Taxes	**4,606**	5,182
Interest and other expenses	**910**	949
	$ 9,741	$ 9,280
DEFERRED CREDITS		
Deferred investment tax credit (Note 6)	**$ 2,125**	$ 1,446
Deferred Federal income taxes	**2,203**	735
Other	**36**	37
	$ 4,364	$ 2,218
CONSTRUCTION PROGRAM (Note 3)		
Total capitalization and liabilities	**$ 120,930**	$ 106,956

es are an integral part of the financial statements)

Executive Offices

100 Executive Drive
Marion, Ohio

For a copy of the 1972 Annual Report of our Parent Company, please write to General Telephone & Electronics Corporation, 730 Third Avenue, New York, N.Y., 10017.

NORTHERN OHIO TELEPHONE COMPANY

Statements of Income

For The Years Ended December 31, 1972 and 1971

	1972	1971
	(Thousands of Dollars)	
OPERATING REVENUES		
Local service (Note 7)	**$ 13,824**	$ 12,798
Toll service	**19,542**	17,908
Miscellaneous	**885**	866
Provision for doubtful accounts	**(171)**	(178)
	$ 34,080	$ 31,394
OPERATING EXPENSES AND TAXES		
Maintenance	**$ 6,427**	$ 5,914
Depreciation	**4,956**	4,291
Traffic	**2,666**	2,619
Commercial	**1,472**	1,257
General office salaries and other (Note 4)	**3,735**	3,101
General taxes	**3,880**	3,410
Federal income taxes (Note 6)	**1,634**	2,921
Deferred Federal income taxes	**1,468**	600
Total operating expenses and taxes	**$ 26,238**	$ 24,113
Net operating income	**$ 7,842**	$ 7,281
MISCELLANEOUS INCOME-Net (Note 5)	**586**	438
Income available for interest charges	**$ 8,428**	$ 7,719
INTEREST CHARGES		
Interest on long-term debt	**$ 3,202**	$ 2,415
Other interest	**595**	665
Amortization of debt expense	**17**	16
Total interest charges	**$ 3,814**	$ 3,096
Net income	**$ 4,614**	$ 4,623

Statements o
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For The Years Ended December 3

Balance, beginning of period ....
Add —
Net income ....
Deduct —
Cash dividends on common stoc
Balance, end of period (Note 1) ..

Statements o
In Financial F

For The Years Ended December 31

SOURCES OF FUNDS
From operations —
Net income ....
Non-cash items:
Depreciation ....
Deferred Federal income tax
Deferred investment tax cred
Other ....
Funds available from opera
Sale of long-term debt ....
Sale of common stock to GTE (p
Decrease (increase) in working c

USES OF FUNDS
Construction and other plant adc
Cash dividends paid on common
Decrease in short-term debt ...
Other ....

(a) Decrease (increase) in workin
capital represented by:
Accounts receivable ....
Accounts payable ....
Accrued taxes ....
Other ....

(The accompanying summary of significant accounti

ings Retained
ness

	1972	1971
	(Thousands of Dollars)	
	$ 6,740	$ 5,117
	4,614	4,623
	3,250	3,000
	$ 8,104	$ 6,740

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n

	1972	1971
	(Thousands of Dollars)	
	$ 4,614	$ 4,623
	4,956	4,291
	1,468	600
	656	257
	(128)	70
	$ 11,566	$ 9,841
	10,000	19,972
	10,000	—
	2,682	(1,912)
	$ 34,248	$27,901
	$ 20,875	$ 19,911
	3,250	3,000
	10,000	4,950
	123	40
	$ 34,248	$ 27,901
	$ 1,258	$ (1,789)
	842	(1,404)
	(576)	953
	1,158	328
	$ 2,682	$ (1,912)

Statements of Capitalization

December 31, 1972 and 1971

		1972		1971	
		(Thousands of Dollars)			
COMMON EQUITY (Note 1)					
Common stock - authorized 6,000,000 shares, $25 par value, 1,600,000 shares outstanding		**$ 40,000**		$ 30,000	
Earnings retained for use in the business		**8,104**		6,740	
		$ 48,104	**47%**	$ 36,740	45%
LONG-TERM DEBT					
First Mortgage Bonds					
Series	Due				
$2\frac{7}{8}\%$	1980	**$ 1,600**		$ 1,600	
$3\frac{1}{2}\%$	1982	**1,800**		1,800	
$5\frac{1}{8}\%$	1987	**3,000**		3,000	
$4\frac{7}{8}\%$	1988	**3,000**		3,000	
$4\frac{7}{8}\%$	1991	**3,500**		3,500	
$4\frac{1}{2}\%$	1993	**6,000**		6,000	
$6\frac{1}{4}\%$	1997	**6,000**		6,000	
		$ 24,900		$ 24,900	
Promissory Notes					
Due 1974, 2% over prime rate		**$ 14,000**		$ 14,000	
Due 1976, $8\frac{1}{4}\%$ (Note 1)		**6,000**		6,000	
Due 1977, 2% over prime rate		**10,000**		—	
		$ 30,000		$ 20,000	
		$ 54,900		$ 44,900	
Less discount in process of amortization		**79**		82	
		$ 54,821	**53%**	$ 44,818	55%
Total capitalization		**$ 102,925**	**100%**	$ 81,558	100%

Summary of Significant Accounting Policies

The financial statements reflect the significant accounting policies described in this summary.

Purchases from Affiliates: Certain affiliated manufacturing companies supply construction and maintenance materials, supplies and equipment to the Company at prices which in the opinion of management, are fair and reasonable and compare favorably with other sources. Such purchases are recorded in the accounts of the Company at cost which includes the return on investment realized by the manufacturing affiliates. The Federal income tax deferral resulting from the elimination in the consolidated income tax return filed by General Telephone & Electronics Corporation (parent company) of profits realized on such sales has been distributed to the Company and applied as a credit to the plant accounts. Since the tax depreciable property base of the Company will be reduced by the amount of the total profit eliminated therefrom, future Federal income taxes will be increased. However, the effect of the credit to the plant account herein is to decrease book depreciation expense over the life of the plant concurrently with the increase in the income tax expense, so that there is no material effect on net income of the Company.

Telephone Plant: Telephone plant is recorded by the Company substantially at original cost. Included in original cost are certain pension costs, payroll taxes and interest costs applicable to the construction activity. The Company follows the practice of deducting from income for tax purposes these construction-related costs. The tax effect of such timing differences is not being deferred.

Income Taxes: The Company provides for deferred taxes resulting from the use of different depreciation methods for accounting and tax purposes. The deferred taxes will be returned to income when these timing differences reverse.

The investment tax credit has been deferred and is being amortized over the average lives of the property by credits to income tax expense.

Maintenance and Depreciation: Costs in connection with repairs of property and replacement and renewal of items determined to be less than units of property are charged to income. Additions to and replacements and renewals of property, considered to be units of property, are charged to telephone plant accounts.

The Company follows the policy of providing for depreciation on the straight-line method for book purposes, based on the estimated service lives of the various classes of depreciable property. Such provision was equivalent to an annual rate of 4.61% and 4.63% of the average depreciable property cost for the years 1972 and 1971, respectively.

Business Information Systems Development Costs: The Company is deferring and amortizing to income over five years, the costs of developing certain business information systems.

Notes to Financial Statements

1. During 1972, 400,000 shares of Common Stock totaling $10,000,000 were sold to General Telephone & Electronics Corporation (GTE) (parent company).

The Note Purchase Agreement related to the 8¼% Promissory Note limits the current debt outstanding and the funded debt to be incurred, states a minimum adjusted net worth, restricts investment as defined and limits the payment of dividends during any twelve-month period to the earnings for that period.

2. The Company's short-term debt has been excluded from current liabilities because it is expected that it will be refinanced by issues of long-term debt or issues of equity capital.

At December 31, 1972, the Company's unused line of short-term bank credit, which is available at the prime rate, was $10,000,000.

3. Expenditures for construction for 1973 as now planned are estimated at $25,600,000.

4. The Company has a pension plan maintained without cost to its employees and under which employees, upon retirement, are provided a monthly pension if conditions related to age and period of service have been met. Estimated unfunded costs are being amortized over 20 years. The Company's policy is to fund pension costs accrued.

The total pension cost in 1972 and 1971 was $797,000 and $684,000, respectively, which includes amortization of unfunded costs of $281,000 and $209,000, respectively. Estimated unfunded costs at December 31, 1972 based on the latest actuarial study, were $2,952,000. The total of the pension fund exceeds the actuarially computed value of the vested pension benefits at December 31, 1972, the latest valuation date.

5. Miscellaneous income includes a credit for interest charged to construction of $607,000 in 1972 and $416,000 in 1971.

6. Investment tax credit of $773,000 and $404,000 for 1972 and 1971, respectively, has been deferred in the accompanying balance sheets. This includes $23,000 in 1972 and $87,000 in 1971 recorded as an adjustment of the amount deferred in the prior year. Amortization of $94,000 in 1972 and $60,000 in 1971 has been reflected as a reduction of income taxes in the accompanying statements of income.

7. The Company filed an Application for increased local service rates with the Public Utilities Commission of Ohio on July 12, 1971. Hearings were held in November, 1972, and the case is presently under consideration by the Commission. The Application requested $3,533,000 in added local service revenue. The Company is unable to predict when, or how much of, the proposed increase will be approved by the PUCO.

Notes to Financial Statements (Con't)

8. In October, 1967, International Telephone & Telegraph Corporation filed a Civil Antitrust Suit under the Clayton Act against General Telephone & Electronics Corporation (GTE) (parent company) and Hawaiian Telephone Company which attacked the acquisition by GTE of a number of telephone operating companies and telephone equipment manufacturing companies on the grounds that such acquisitions violated antitrust laws.

On July 14, 1972, the Trial Court found that a number of GTE's acquisitions of telephone companies and telephone equipment manufacturing companies violated certain sections of the Clayton and Sherman Acts. In December, 1972, the Trial Court entered a decree which would, if upheld on appeal, require among other things, (A) GTE to divest the U.S. and Canadian business operations and assets acquired in connection with acquisition of GTE Automatic Electric Incorporated, GTE Lenkurt Incorporated and Leich Electric Company and (B) GTE to divest the telephone operating assets acquired in certain acquisitions within two years after all appeals are completed or, with the approval of the Court, to make a substantially equivalent divestiture (as measured by telephones in service) in the form of presently organized GTE telephone subsidiaries.

It is the opinion of trial and special antitrust counsels for GTE that there is no basis in the record before the Trial Court for a finding that GTE's acquisitions of telephone companies violate the antitrust laws in the absence of vertical integration, that even if the Court was upheld on the issue of liability, the relief granted is excessive since divestiture of telephone operating companies, in addition to divestiture of telephone equipment companies is neither necessary nor appropriate to cure the effects of vertical integration which the Court held to constitute a violation of the antitrust laws and the divestiture of telephone operating companies should not be affirmed on appeal.

The final disposition of the issues might ultimately (A) have no effect on the Company which itself is not a defendant, (B) might cause GTE to compel the disposition of substantial elements of the Company's assets, (C) might cause GTE to dispose of all the stock of the Company it presently owns or (D) might require substantial revisions in the procedures whereby the Company acquires certain of its equipment.

GTE filed notice of appeal on January 11, 1973 from the Trial Court's July 14, 1972 decision and the decree entered by the Trial Court in December 1972.

Management of the Company is unable to predict what effect, if any, the ultimate outcome of this suit might have on future operations. Management of GTE has advised management of the Company if an order is sustained on appeal which would compel the disposition of substantial elements of the Company's assets, GTE would dispose of its stock in the Company rather than compel the Company to dispose of such assets without receiving the book value thereof.

Auditors' Report

ARTHUR ANDERSEN & CO.

100 East Broad Street
Columbus, Ohio

To the Board of Directors and Shareholders
of Northern Ohio Telephone Company:

We have examined the balance sheets and statements of capitalization of Northern Ohio Telephone Company (an Ohio corporation and a wholly owned subsidiary of General Telephone & Electronics Corporation) as of December 31, 1972 and 1971, and the related statements of income, earnings retained for use in the business, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements referred to above present fairly the financial position of Northern Ohio Telephone Company as of December 31, 1972 and 1971, and the results of its operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.

January 31, 1973

GTE

NORTHERN OHIO TELEPHONE COMPANY

Five-Year Record of Progress

	1972	1971	1970	1969	1968
Selected Income Account Items (Thousands of Dollars)					
Total operating revenues	$ 34,080	$ 31,394	$ 26,247	$ 23,599	$ 21,505
Local service	13,824	12,798	11,898	10,893	10,976
Toll service	19,542	17,908	13,692	12,024	9,747
Operating expenses and taxes:					
Depreciation	4,956	4,291	3,743	3,321	3,018
Salaries and wages	7,782	7,188	6,545	5,451	*
All other	6,518	5,703	5,518	4,327	7,356
General taxes	3,880	3,410	2,908	2,403	2,275
Federal income taxes	1,634	2,921	1,884	2,931	3,765
Deferred Federal income taxes	1,468	600	135	—	—
Interest charges	3,814	3,096	3,023	2,348	1,808
Net income	4,614	4,623	2,702	3,142	3,418
Dividends on common stock	3,250	3,000	2,415	2,834	2,126
Selected Balance Sheet Items (Thousands of Dollars)					
Investment in telephone plant	$ 135,892	$ 119,411	$ 101,739	$ 87,377	$ 77,009
Accumulated depreciation	22,109	21,714	19,687	18,034	16,347
Invested capital:					
Bonds	24,821	24,818	24,814	24,900	24,900
Promissory notes	30,000	20,000	—	—	—
Notes and advances	3,900	13,900	18,850	19,500	9,006
Common stock and retained earnings	48,104	36,740	35,117	23,580	23,273
Total invested capital	106,825	95,458	78,781	67,980	57,179
Selected Statistics					
Telephones in service (all dial)	220,332	206,169	193,619	185,798	172,771
Per cent D.D.D. (inward and outward)	97	97	97	*	*
Net plant investment per telephone	$ 516	$ 474	$ 424	$ 371	$ 351
Central offices	74	74	74	68	68
Miles of wire	882,596	775,290	690,982	612,026	556,806
Per cent in cable	97	97	96	95	95
Gross plant additions (Thousands)	$ 21,285	$ 20,109	$ 16,998	$ 11,596	$ 9,709
Average daily local calls	1,033,721	*	*	*	*
Average daily toll messages	68,698	66,308	60,903	*	*
Total salaries and wages (Thousands)	$ 10,666	$ 9,462	$ 7,991	$ 6,425	*
Pension and related payroll costs (Thousands)	$ 1,827	$ 1,318	$ 892	$ 660	*
Number of employees	1,565	1,545	1,534	1,365	*

*Not Available